

CITY OF DRUMRIGHT
Drumright, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2013

CITY OF DRUMRIGHT
Drumright, Oklahoma

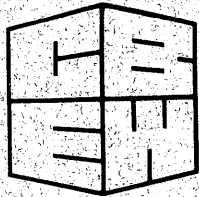
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CITY OF DRUMRIGHT
Drumright, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

September 4, 2013

Honorable Board of City Commissioners
City of Drumright
Drumright, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Drumright, Oklahoma, (City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Drumright, Oklahoma, as of June 30, 2013, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 38 – 40 and the notes on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements and the schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF DRUMRIGHT
STATEMENT OF NET POSITION
June 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 505,555	\$ 932,264	\$ 1,437,819
Investments, at cost	276,960	912,341	1,189,301
Receivables (net of allowance for uncollectibles):			
Accounts receivable	56,631	164,948	221,579
Taxes	129,417	54,744	184,161
Franchise	11,762	-	11,762
Interest	-	3,342	3,342
Grant	50,077	-	50,077
Unbilled revenues	-	15,008	15,008
Note receivable	-	40,988	40,988
Restricted assets:			
Cash & cash equivalents (Note 1 & 3)	8,821	95,478	104,299
Investments, at cost	39,540	181,000	220,540
Gas loan reserve	-	189,400	189,400
Revenue bond accounts	-	3,462,570	3,462,570
Capital assets:			
Land	64,900	394,125	459,025
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	1,106,496	5,143,435	6,249,931
Total assets	2,250,159	11,589,643	13,839,802
Deferred outflows of resources:			
Total deferred outflows	-	-	-
Liabilities:			
Current liabilities:			
Accounts payable	-	16,396	16,396
Cash overdraft	1,150	-	1,150
Claims pending	6,744	-	6,744
Reserve for court improvements	11,492	-	11,492
Accrued interest	-	62,244	62,244
Accrued liabilities	-	-	-
Deferred compensation	65,028	34,418	99,446
Payable from restricted assets:			
Polycart deposits	-	-	-
Meter deposits	-	211,919	211,919
Notes payable (Note 3)	21,265	3,300,000	3,321,265
Revenue bonds payable (Notes 3)	-	69,914	69,914
Non-current liabilities:			
Notes payable (Note 3)	19,723	443,164	462,887
Revenue bonds payable (Notes 3)	-	2,485,000	2,485,000
Revenue notes payable (Notes 3)	-	2,582,632	2,582,632
Total liabilities	125,402	9,298,542	9,423,944
Deferred inflows of resources:			
Total deferred inflows	-	-	-
Net position:			
Invested in capital assets, net of related debt	1,130,408	(66,091)	1,064,317
Restricted	531,730	3,716,529	4,248,259
Unrestricted	462,619	(1,359,337)	(896,718)
Total net position	\$ 2,124,757	\$ 2,291,101	\$ 4,415,858

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRUMRIGHT
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
City clerk	\$ 168,927	\$ -	\$ -	\$ -	\$ (168,927)
City manager	71,631	-	-	-	(71,631)
General government	152,719	7,591	-	-	(145,128)
Total general government	393,277	7,591	-	-	(385,686)
Public safety and judiciary:					
City attorney	16,755	-	-	-	(16,755)
Fire	327,875	300	56,861	-	(270,714)
Municipal court	18,859	-	-	-	(18,859)
Police	424,804	138,568	2,517	-	(283,719)
Total public safety and judiciary	788,294	138,868	59,378	-	(590,048)
Transportation:					
Streets	384,642	-	-	-	(384,642)
Total transportation	384,642	-	-	-	(384,642)
Cultural, parks and recreation:					
Cemetery	-	500	-	-	500
Library	77,107	2,747	5,170	-	(69,190)
Parks	11,348	-	-	-	(11,348)
Total cultural, parks and recreation	88,455	3,247	5,170	-	(80,038)
Public health and welfare					
Sanitation	270,432	372,160	-	-	101,728
Total public health and welfare	270,432	372,160	-	-	101,728
Total governmental activities	1,925,099	521,866	64,548	-	(1,338,685)
Business-type activities					
Water utility	1,185,359	666,806	-	-	(518,553)
Sewer utility	280,866	348,073	-	-	67,207
Gas utility	753,457	1,163,178	-	-	409,721
Industrial authority	57,195	62,700	-	-	5,505
Healthcare facility	-	-	-	-	-
Financing costs	459,954	-	-	-	(459,954)
Total business-type activities	2,736,831	2,240,757	-	-	(496,074)
Total primary government	\$ 4,661,930	\$ 2,762,623	\$ 64,548	\$ -	\$ (1,834,759)

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRUMRIGHT
STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2013

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (1,338,685)	\$ (496,074)	\$ (1,834,759)
General revenues:			
Taxes:			
Sales and use taxes	820,984	260,152	1,081,136
Franchise taxes	135,815	-	135,815
Intergovernmental	61,067	-	61,067
Investment earnings	2,957	42,699	45,656
Miscellaneous	108,651	146,815	255,466
Rental	3,600	-	3,600
Sale or disposal of assets	(65,340)	1,500	(63,840)
Transfers	364,758	(364,758)	-
Total general revenues and transfers	<u>1,432,492</u>	<u>86,408</u>	<u>1,518,900</u>
Change in net position	93,807	(409,666)	(315,859)
Net position - beginning of year	<u>2,030,950</u>	<u>2,700,767</u>	<u>4,731,717</u>
Net position - end of year	<u>\$ 2,124,757</u>	<u>\$ 2,291,101</u>	<u>\$ 4,415,858</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013**

	<u>General Fund</u>	<u>Street Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and investments:				
Cash & cash equivalents	\$ 287,839	\$ 8,602	\$ 209,114	\$ 505,555
Investments, at cost	50,000	140,000	86,960	276,960
Receivables (net):				
Accounts receivable	56,631	-	-	56,631
Taxes	85,613	28,163	15,641	129,417
Franchise	11,762	-	-	11,762
Grant	50,077	-	-	50,077
Due from other funds	-	-	4,916	4,916
Restricted assets:				
Cash & cash equivalents	8,821	-	-	8,821
Investments, at cost	-	-	39,540	39,540
Total assets	\$ 550,743	\$ 176,765	\$ 356,171	\$ 1,083,679
Liabilities:				
Cash overdraft	\$ -	\$ -	\$ 1,150	\$ 1,150
Claims pending	4,721	2,023	-	6,744
Reserve for court improvements	11,492	-	-	11,492
Due to other funds	4,916	-	-	4,916
Total liabilities	21,129	2,023	1,150	24,302
Fund balance:				
Restricted for:				
Cemetery	-	-	39,540	39,540
Capital Projects	-	174,742	305,998	480,740
Workers compensation	1,967	-	-	1,967
Other purposes	-	-	9,483	9,483
Unassigned	527,647	-	-	527,647
Total fund balance	529,614	174,742	355,021	1,059,377
Total liabilities and fund equity	\$ 550,743	\$ 176,765	\$ 356,171	\$ 1,083,679

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRUMRIGHT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET POSITION
June 30, 2013

Total Fund Balances - Total Governmental Funds **\$ 1,059,377**

Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Inter-fund note payable (Note 3)	(40,988)
Deferred compensation	(65,028)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 64,900	64,900
General Government	\$ 1,062,897	
Sanitation	57,738	
Police	210,085	
Fire	800,428	
Water	44,317	
Streets	893,643	
Park	203,807	
Library	15,627	
Accumulated Depreciation	<u>(2,182,046)</u>	
Total		<u>1,106,496</u>

Net position of governmental activities **\$ 2,124,757**

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRUMRIGHT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	General Fund	Street Improvement Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Charges for services	\$ 405,399	\$ -	\$ -	\$ 405,399
Licenses and permits	7,591	-	-	7,591
Intergovernmental programs	35,043	26,024	-	61,067
Sales and use taxes	551,317	161,869	107,798	820,984
Franchise fees	135,815	-	-	135,815
Fines and forfeitures	108,376	-	-	108,376
Interest	2,957	-	-	2,957
Rentals	3,600	-	-	3,600
Lot sales	-	-	500	500
Grants and donations	64,548	-	-	64,548
Miscellaneous revenue	28,497	898	79,256	108,651
Total revenues	<u>1,343,143</u>	<u>188,791</u>	<u>187,554</u>	<u>1,719,488</u>
Expenditures:				
Current:				
General government	384,931	-	-	384,931
Public safety	743,976	-	21,265	765,241
Highways & roads	3,020	334,649	-	337,669
Cultural, parks & recreation	76,309	-	-	76,309
Health & welfare	270,433	-	-	270,433
Capital outlay	-	-	-	-
Total expenditures	<u>1,478,669</u>	<u>334,649</u>	<u>21,265</u>	<u>1,834,583</u>
	1,472,466			
Excess of revenues over (under) expenditures	(135,526)	(145,858)	166,289	(115,095)
Other financing uses:				
Operating transfers in (out)	<u>267,785</u>	<u>107,749</u>	<u>(10,776)</u>	<u>364,758</u>
Excess of revenues over (under) expenditures & transfers	132,259	(38,109)	155,513	249,663
Fund balance - beginning of year	<u>397,355</u>	<u>212,851</u>	<u>199,508</u>	<u>809,714</u>
Fund balance - end of year	<u>\$ 529,614</u>	<u>\$ 174,742</u>	<u>\$ 355,021</u>	<u>\$ 1,059,376</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRUMRIGHT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES
IN NET POSITION
For the Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds **\$ 249,663**

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report lease payments as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the principal paid on that liability is applied against the liability. This is the amount of principal recorded in the current period. (Note 3) 17,748

Government-Wide Statement of Activities and Changes in Net Position report accrued compensated absences in the period incurred. However, Governmental Funds do not pay on this liability until the employee has left employment. The amount of the change in accrued absences recorded in the current period. 8,124

Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets disposed in the current period. (65,340)

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (116,388)

Change in Net Position of Governmental Activities **\$ 93,807**

CITY OF DRUMRIGHT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

	Business-type Activities - Enterprise Funds						
	Drumright Utility Trust						Totals
	Water Utility	Sewer Utility	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority (Non-major)	
Assets:							
Cash and investments:							
Cash & cash equivalents (Note 3)	\$ 142,828	\$ 130,391	\$ 476,028	\$ 183,017	\$ -	\$ -	\$ 932,264
Investments	259,659	23,007	629,675	-	-	-	912,341
Receivables (net of allowance for uncollectibles):							
Accounts receivable	66,591	42,579	55,778	-	-	-	164,948
Interest	2,212	-	1,130	-	-	-	3,342
Taxes	54,744	-	-	-	-	-	54,744
Unbilled revenues	-	-	15,008	-	-	-	15,008
Due from other funds	-	-	-	-	-	-	-
Note receivable	-	-	40,988	-	-	-	40,988
Restricted assets:							
Cash & cash equivalents (Note 3)	39,823	24,736	30,919	-	-	-	95,478
Investments, at cost	-	-	181,000	-	-	-	181,000
Gas loan reserve	-	-	189,400	-	-	-	189,400
Revenue bond accounts	3,462,570	-	-	-	-	-	3,462,570
Capital assets:							
Land & work in progress	-	353,700	4,300	36,125	-	-	394,125
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	1,060,474	578,234	2,166,088	1,338,639	-	-	5,143,435
Total assets	<u>\$ 5,088,901</u>	<u>\$ 1,152,647</u>	<u>\$ 3,790,314</u>	<u>\$ 1,557,781</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,589,643</u>
Deferred outflows of resources:							
Total deferred outflows	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRUMRIGHT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2013

(Continued)	Business-type Activities - Enterprise Funds					
	Drumright Utility Trust		Drumright			Drumright
	Water Utility	Sewer Utility	Gas Authority	Industrial Authority	Municipal Healthcare Facility (Non-major)	Municipal Healthcare Authority (Non-major)
Liabilities:						
Current liabilities:						
Accounts payable	\$ -	\$ -	16,396	\$ -	\$ -	\$ -
Accrued interest	61,590	-	654	-	-	-
Deferred compensation	16,194	6,600	11,624	-	-	-
Due to other funds	-	-	-	-	-	-
Payable from restricted assets:						
Meter deposits	-	-	211,919	-	-	-
Notes payable (Note 3)	-	63,535	-	29,320	-	-
Revenue bonds payable (Note 3)	3,300,000	-	-	-	-	-
Revenue notes payable (Note 3)	-	-	69,914	-	-	-
Non-current liabilities:						
Notes payable (Note 3)	-	271,522	-	171,642	-	-
Revenue bonds payable (Note 3)	2,485,000	-	-	-	-	-
Revenue notes payable (Note 3)	-	-	2,582,632	-	-	-
Total liabilities	5,862,784	341,657	2,893,139	200,962	-	9,298,542
Deferred inflows of resources:						
Total deferred inflows	-	-	-	-	-	-
Net position:						
Invested in capital assets, net of related debt	(1,424,526)	660,412	(412,244)	1,203,122	-	-
Restricted	3,502,393	24,736	189,400	-	-	-
Unrestricted	(2,851,750)	125,842	1,120,019	153,697	-	-
Total net position	\$ (773,883)	\$ 810,990	\$ 897,175	\$ 1,356,819	\$ -	\$ 2,291,101

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRUMRIGHT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds					
	Drumright Utility Trust		Drumright Gas Authority			
	Water Utility	Sewer Utility	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority (Non-major)
Revenues:						
Water	\$ 666,806	\$ -	\$ -	\$ -	\$ -	\$ 666,806
Sewer	-	348,073	-	-	-	348,073
Gas	-	-	1,163,178	-	-	1,163,178
Lease income	-	-	-	62,700	-	62,700
Miscellaneous	58,828	76,549	11,438	-	-	146,815
Total revenues	725,634	424,622	1,174,616	62,700	-	2,387,572
Operating expenses:						
Gas & oil	10,687	6,201	13,529	-	-	30,417
Health Insurance	27,675	9,800	16,475	-	-	53,950
Insurance	26,274	9,934	19,326	1,490	-	57,024
Legal & accounting	516,488	-	4,500	1,700	-	522,688
Materials & supplies	90,335	29,556	18,233	-	-	138,124
Miscellaneous	85,023	65,824	47,408	130	-	198,385
Office-credit card fees, postage	3,721	1,021	-	-	-	4,742
Payroll taxes	14,076	5,194	8,408	-	-	27,678
Purchase of gas	-	-	406,281	-	-	406,281
Repairs & maintenance	51,747	20,180	2,325	19,391	-	93,643
Retirement	23,355	8,602	13,645	-	-	45,602
Salaries	189,816	68,110	110,330	-	-	368,256
Taxes	-	-	3,342	-	-	3,342
Telephone	911	561	1,526	-	-	2,998
Utilities	55,849	3,947	564	-	-	60,360
Depreciation	89,402	51,936	87,565	34,484	-	263,387
Total operating expenses	\$ 1,185,359	\$ 280,866	\$ 753,457	\$ 57,195	\$ -	\$ 2,276,877

The accompanying notes are an integral part of the basic financial statements.

CITY OF DRUMRIGHT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds					
	Drumright Utility Trust	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority (Non-major)	Totals
(Continued)						
Income before non-operating revenues, expenses & transfers	\$ (459,725) \$	143,756 \$	421,159 \$	5,505 \$	- \$	\$ 110,695
Non-operating revenues (expenses):						
Interest	9,085	434	27,730	315	5,135	42,699
Sales and use tax	260,152	-	-	-	-	260,152
Sale or disposal of assets	-	-	-	1,500	-	1,500
Grants and donations	-	-	-	-	-	-
Interest expense	(138,294)	(817)	(120,995)	-	-	(260,106)
Trustee fees	(199,848)	-	-	-	-	(199,848)
Total non-operating	(68,905)	(383)	(93,265)	1,815	5,135	(155,603)
Income (loss) before operating transfers	(528,630)	143,373	327,894	7,320	5,135	(44,908)
Transfers in (out)	733,844	(35,000)	(217,000)	-	(846,596)	(364,758)
Change in net position	205,214	108,373	110,894	7,320	(841,461)	(409,666)
Net position at beginning of year	(979,097)	702,617	786,281	1,349,499	841,461	2,700,767
Net position at end of year	\$ (773,883) \$	810,990 \$	897,175 \$	1,356,819 \$	- \$	\$ 2,291,101

CITY OF DRUMRIGHT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds					
	Drumright Utility Trust	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority (Non-major)	Totals
Cash flows from operating activities:						
Cash received from customers & service users	\$ 645,891	\$ 334,794	\$ 62,700	\$ -	\$ -	\$ 2,287,958
Cash payments for goods & services & employees	(815,123)	(231,887)	(22,711)	-	-	(1,739,586)
Other operating revenues	58,828	76,549	-	-	-	146,815
Net cash provided by operating activities	<u>(110,404)</u>	<u>179,456</u>	<u>39,989</u>	<u>-</u>	<u>-</u>	<u>675,187</u>
Cash flows from noncapital financing activities:						
Sales and use tax revenue	260,152	-	-	-	-	260,152
Change in customer meter deposits	-	684	-	-	-	684
Grant revenue/(expense)	-	-	-	-	-	-
Operating transfers in/(out) to other funds	733,844	(35,000)	(217,000)	(6)	(846,596)	(364,758)
Net cash provided (used) for noncapital financing activities	<u>993,996</u>	<u>(35,000)</u>	<u>(216,316)</u>	<u>(6)</u>	<u>(846,596)</u>	<u>(103,922)</u>
Cash flows from capital and related financing activities:						
(Acquisition) Sale of capital assets	(7,600)	(356,300)	(9,513)	-	-	(371,913)
Principal paid on debt	(65,000)	(14,807)	(29,319)	-	-	(175,969)
Interest paid on debt	(152,141)	(817)	(121,012)	-	-	(273,970)
Loans to/(from) others	2,600,000	349,865	-	-	-	2,949,865
Trustee fees	(199,848)	-	-	-	-	(199,848)
Net cash provided (used) for capital and related financing activities	<u>2,175,411</u>	<u>(22,059)</u>	<u>(27,819)</u>	<u>-</u>	<u>-</u>	<u>1,928,165</u>
Cash flows from investing activities:						
(Purchase) liquidation of investments	67,336	(7)	80,292	-	-	147,621
Interest on investments	9,021	434	315	-	5,135	42,912
Net cash provided by investing activities	<u>76,357</u>	<u>427</u>	<u>315</u>	<u>-</u>	<u>5,135</u>	<u>190,533</u>
Net increase (decrease) in cash & cash equivalents	<u>3,135,360</u>	<u>122,824</u>	<u>12,485</u>	<u>(6)</u>	<u>(841,461)</u>	<u>2,689,963</u>
Cash and cash equivalents - beginning of year	<u>509,861</u>	<u>32,303</u>	<u>170,532</u>	<u>6</u>	<u>841,461</u>	<u>1,800,349</u>
Cash and cash equivalents - end of year	<u>\$ 3,645,221</u>	<u>\$ 155,127</u>	<u>\$ 183,017</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,480,312</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Drumright, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The City of Drumright, Oklahoma was organized under the statutes of the State of Oklahoma. The City operates under a council/manager form of government and is governed by a five-member board of commissioners. The commissioners elect the mayor from their own body. The City provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (gas, water, sewer, and refuse), judicial, health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographical area organized as the City of Drumright, Oklahoma.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units and trusts, entities for which the City is considered to be financially accountable. Blended component units and trusts, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

Blended Component Units:

The Drumright Utility Trust (the Trust) was created pursuant to a Trust Indenture dated March 7, 1978, to finance, operate, construct and administer public works, improvements or facilities for the benefit of the City of Drumright, Oklahoma. The public works systems owned by the City have been leased to the Trust and are carried on the books of the Trust. The Trust is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes and is governed by a board consisting of five trustees identical with the City Council. The Trust is exempt from State and Federal Income taxes. The Trust is reported as an enterprise fund and includes the water distribution system and sewer service for the City of Drumright.

The Drumright Gas Authority (the Authority) was created pursuant to a Trust Indenture dated April 17, 1973 to finance, operate, construct and administer public works, improvements or facilities for the benefit of the City of Drumright, Oklahoma. The public works systems owned by the City have been leased to the Authority and are carried on the books of the Authority. The Authority is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes and is governed by a board consisting of five trustees identical with the City Council. The Authority is exempt from State and Federal Income taxes. The Authority is reported as an enterprise fund and includes the gas distribution system for the City of Drumright.

The Drumright Industrial Authority (DIA) was created pursuant to a Trust Indenture date May 2, 1967, to promote the development of industry, and provide additional employment for the benefit of the City of Drumright. The DIA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of five trustees appointed by majority vote of the City Commission of the City of Drumright. The DIA is exempt from State and Federal income taxes. The DIA is reported as an enterprise fund.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended Component Units (Continued):

The Drumright Municipal Healthcare Facilities Authority (DMHFA) was created pursuant to a Trust Indenture dated December 3, 2002, to plan, finance, establish, develop, construct, enlarge, remodel, improve, make alterations, extend, maintain, equip, operate, lease, furnish and regulate medical facilities. The DMHFA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees. Three trustees are members of the City of Drumright governing board, three are members of the Drumright Memorial Hospital Foundation, Inc. governing board and one trustee is selected by majority vote of the other six trustees. The DMHFA is exempt from State and Federal income taxes. On October 23, 2012, the Drumright City council consented to dissolve the DMHFA and transfer all assets to the City of Drumright.

The Drumright Municipal Healthcare Authority (DMHA) was created pursuant to a Trust Indenture dated December 26, 2001, to plan, finance, establish, develop, construct, enlarge, remodel, improve, make alterations, extend, maintain, equip, operate, lease, furnish and regulate medical facilities. The DMHA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees. Three trustees are members of the City of Drumright governing board, three are members of the Drumright Memorial Hospital Foundation, Inc. governing board and one trustee is selected by majority vote of the other six trustees. The DMHA is exempt from State and Federal income taxes. DMHA obtained funding for the construction of a critical access hospital through a loan guaranteed by the Department of Housing and Urban Development. On October 23, 2012, the Drumright City council consented to dissolve the DMHA and transfer all assets to the City of Drumright.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Government-wide Financial Statements

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that the government believes is important enough for financial statement users to be reported as a major fund. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting – The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims, and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes, tobacco taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund – is the general operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Street Improvement Fund – is a special revenue fund used for the maintenance and improvement of city streets.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Governmental Funds (Continued)

Other governmental funds of the City that are considered non-major funds include:

Special Revenue funds - account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The following are the City's Special Revenue Funds: Cemetery Care Fund, Broadway Sidewalk II, Library Improvement, and CDBG grant fund.

Capital Improvement Fund – is a capital project fund used for capital improvements to city infrastructure.

Permanent funds – account for in the same manner as governmental funds, such as the General Fund. The fund is accounted for using the modified accrual basis of accounting and the measurement focus is essentially the flow of current financial resources. Earnings from investments of the fund are transferred to the City's general fund. The Cemetery Trust Fund is the City's only permanent fund.

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the City has adopted only Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise.

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The Drumright Utility Trust, Drumright Gas Authority, Drumright Industrial Authority, Drumright Municipal Healthcare Facility and Drumright Municipal Healthcare Authority are accounted for as enterprise funds. The following are the City's major enterprise funds:

Water Utility Fund – accounts for the operations of providing public works (water, sewer) to the City.

Sewer Utility Fund – accounts for the operations of providing public works (sewer) to the City.

Gas Authority – accounts for the operations of providing public works (gas) to the City.

Industrial Authority – accounts for the leases of industrial buildings for the City.

The other enterprise funds of the City do not meet the percentage criteria for major funds but the City has elected to treat the following two non-major funds as though they were major funds for purposes of presentation within the proprietary funds of the financial statements rather than aggregating this information separately solely for the benefit of user understandability of the financial statements.

Municipal Healthcare Facility – accounts for the leases of healthcare facilities.

Municipal Healthcare Authority – accounts for construction or remodeling of medical facilities.

**CITY OF DRUMRIGHT
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

2. Restricted Cash and Investments

Certain restricted cash and investments are the result of financial requirements of Rural Economic and Community Development Administration (RECD) notes and Revenue bonds of the Drumright Utility Trust and the Drumright Gas Authority and consist of Bond fund reserve, Bond principal reserve, bond interest reserve and gas loan reserve. Under the terms and provisions of the notes and bonds, these special funds are maintained with the Trustee bank for the benefit of the holders of the note and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the notes and bonds are outstanding. Monies contained in the funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the notes and bonds.

The revenue bond indenture of the Drumright Utility Trust Authority utility system revenue bonds series 2006 requires that the Authority maintain a Bond Account, a Sinking Fund and a Sinking Fund Reserve. These accounts are held at The Trust Company of Oklahoma. The Authority is required to make monthly deposits into the Bond Account equal to approximately one-twelfth of the amount necessary to pay the principal and interest on the Bonds as they become due. The Authority has met this requirement.

The Authority is required to maintain \$233,220 in the Sinking Fund Reserve Account and they have met this requirement for the year ending June 30, 2013. The Authority also met the requirements of Article IV, Section 8. Net revenues as defined by the bond indenture were sufficient to pay a sum equal to 125% of the average annual debt service due on the Bonds and the amount paid into the Sinking Fund Reserve.

Other restricted cash includes customer deposits held, cash for roof repairs received from insurance, other reserves, and Cemetery Trust funds.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

2. Restricted Cash and Investments (Continued)

Future payment requirements are as follows:

<u>Annual Period Commencing August 1,</u>	<u>Minimum Total Deposit During Annual Period</u>	<u>Approximate Monthly Payment</u>
2013	218,177.50	\$ 18,181.46
2014	215,272.50	\$ 17,939.38
2015	217,227.50	\$ 18,102.29
2016	218,965.00	\$ 18,247.08
2017	220,485.00	\$ 18,373.75
2018	221,702.50	\$ 18,475.21
2019	222,697.50	\$ 18,558.13
2020	218,470.00	\$ 18,205.83
2021	224,147.50	\$ 18,678.96
2022	224,370.00	\$ 18,697.50
2023	224,365.00	\$ 18,697.08
2024	224,017.50	\$ 18,668.13
2025	223,437.50	\$ 18,619.79
2026	232,625.00	\$ 19,385.42
2027	230,975.00	\$ 19,247.92
2028	229,087.50	\$ 19,090.63
2029	231,962.50	\$ 19,330.21
2030	229,362.50	\$ 19,113.54
2031	231,525.00	\$ 19,293.75
2032	233,212.50	\$ 19,434.38
2033	229,425.00	\$ 19,118.75
2034	230,400.00	\$ 19,200.00
2035	460,900.00	(1)

(1) Any monies left in the reserve accounts will be applied to the final payment.

3. Fair Value of Financial Instruments

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position/balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

5. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

6. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

7. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The DrumrightMunicipalHealthCenter maintains a capitalization threshold of \$5,000.

The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement

Depreciation is computed on the straight-line method with estimated useful lives as follows:

Description	Governmental Activities	Business-Type Activities	Component Unit
	Estimated Lives	Estimated Lives	Estimated Lives
Buildings & Improvements	40 - 100 years	20 - 40 years	5 - 30 years
Furniture, Fixtures and Equipment	5 - 40 years	10 - 40 years	5 - 15 years
Vehicles	5 - 40 years	5 - 40 years	
Utility systems		40 years	
Transmission and distribution		40 years	

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

8. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused Paid Time Off (PTO). Eligible exempt regular full-time and introductory employees are able to earn PTO according to a schedule based on their tenure with the City. In the event that available PTO is not used by the end of the benefit year (the 12-month period that begins when the employee starts to earn PTO), employees may carry unused time forward to the next benefit year. When the total amount of unused PTO reaches 160 hours the bi-weekly accrual will be placed into the "Extended Illness Accrual Bank" (EIAB). The EIAB accrual will be capped at 640 hours. The City places 2 hours each pay period into the EIAB account for each employee. When the PTO and the EIAB accruals have reached the cap limits, the bi-weekly accruals for PTO will be paid to the employee in the last payroll of the month following the month in which it was earned. Upon termination of employment, employees will be paid for unused PTO that has been earned through the last day of work. Any hours remaining in the EIAB accrual account are forfeited to the City. Non-exempt employees are allowed at the option of the employee, compensatory time in lieu of cash payment for overtime worked. Amounts may be accumulated to a maximum of 240 hours and must be taken within 30 days after working the overtime. The expense and related liability for vested PTO benefits and compensatory time is recorded in the respective funds of the City or component unit.

9. Post-Employment Healthcare Benefits

The City permits retired employees to remain on its health care insurance coverage as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA) provisions or, under the provisions of O. S. 11-23-108 which permits employees who retire with more than eight years of service to elect to remain on the City's plan until they reach age 65.

Employees who elect coverage under either of these provisions must pay the premium in full. The City is permitted to charge a 2% administrative fee in addition to the premiums under COBRA coverage or it may charge a surcharge of up to 25% under the provisions of O. S. 11-23-108. The City's exposure is limited to the effects of "experience" in future rate calculations or the "implied subsidy" theory that these former employees may cause the premiums to be higher than they would be if they were not included in the plan.

10. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

11. Net Position/Fund Balance

In the government-wide financial statement, net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

12. Bad Debt Policy

It is the City's policy to charge bad debts against revenue.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

13. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Grants and Awards

The City was the recipient of the following operating and capital grants during the year:

Library State Aid	\$3,238
Oklahoma Highway Safety Grant	2,517
FEMA – Wildfire	50,077
Library Federal Book Lease	1,932
FM Global Firefighter Grant	2,000
Rural Fire Assistance Grant	<u>4,484</u>
Total	<u>\$ 64,248</u>

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2013, the City held deposits of approximately \$6,603,929 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

The City has adopted a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has the following policy that limits its investment choices and follows the same limitations set forth by state law:

Section 1.

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

Section 2. Trust authority funds may be invested in mutual funds whose portfolio is invested in tax-exempt securities, governmental securities, and high-grade government bonds.

Section 3. Investments shall be made with judgment and care under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the principal as well as the probable income to be derived.

The investments held at June 30, 2013 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificate of deposit	12.00	N/A	655,517	655,517
Govt Bond and Mutual Funds	N/A	AAAm	754,324	740,015
Total investments			<u>\$ 1,409,841</u>	<u>\$ 1,395,532</u>

Reconciliation to Statement of Net Position	
Governmental activities	\$ 316,500
Business-type activities	1,093,341
	<u>\$ 1,409,841</u>

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 46% in Certificates of deposit (\$655,517), and 54% in Government bond and mutual funds (\$754,324).

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Restricted Cash and Investments

Cash and investments have been restricted as follows:

City of Drumright:	
Juvenile programs	\$ 6,854
Rate stabilization reserve, State Insurance Fund	1,967
Cemetery trust fund	39,540
Drumright Gas Authority:	
Customer meter deposits	211,919
Gas loan reserve	189,400
Drumright Utility Trust:	
Reserved for roof repairs	39,823
Sewer and depreciation reserve	3,829
Sewer treatment construction reserve	20,907
Bond fund reserve	<u>3,462,570</u>
Total restricted cash and investments	<u><u>\$ 3,976,809</u></u>

C. Allowance for Uncollectible Accounts

Accounts receivable are reflected net of allowances for uncollectible accounts in the financial statements. The City's estimate of uncollectible accounts receivable by fund and activity is as follows:

Note: The City wrote off all uncollectible accounts on June 30, 2013.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Capital Assets

Primary Government capital asset activity for the year ended is as follows:

Governmental Activities:	<u>6/30/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>6/30/13</u>
Non-depreciable assets:				
Land	\$ 64,900	\$ -	\$ -	\$ 64,900
Total non-depreciable assets	<u>64,900</u>	<u>-</u>	<u>-</u>	<u>64,900</u>
Depreciable assets:				
General Government	1,062,896	-	-	1,062,896
Sewer	66,306	-	(66,306)	-
Sanitation	57,737	-	-	57,737
Police	210,085	-	-	210,085
Fire	800,428	-	-	800,428
Water	44,317	-	-	44,317
Streets	893,644	-	-	893,644
Park	203,807	-	-	203,807
Library	15,628	-	-	15,628
Total depreciable assets	<u>3,176,739</u>	<u>-</u>	<u>(66,306)</u>	<u>3,288,542</u>
Less accumulated depreciation:				
General Government	(878,245)	(14,549)	-	(892,794)
Sewer	(967)	-	967	-
Sanitation	(57,737)	-	-	(57,737)
Police	(145,323)	(24,252)	-	(169,575)
Fire	(538,079)	(16,548)	-	(554,627)
Water	(44,317)	-	-	(44,317)
Streets	(298,097)	(48,893)	-	(346,990)
Park	(95,902)	(11,348)	-	(107,250)
Library	(7,958)	(798)	-	(8,756)
Total Accumulated depreciation	<u>(2,066,625)</u>	<u>(116,388)</u>	<u>967</u>	<u>(2,182,046)</u>
Net depreciable assets	<u>\$ 1,110,114</u>	<u>\$ (116,388)</u>	<u>\$ (65,339)</u>	<u>\$ 1,106,496</u>

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Capital Assets (Continued)

Business-Type Activities:	Balance 6/30/12	Additions	Disposals	Balance 6/30/13
Non-depreciable assets:				
Land	\$ 40,425	\$ -	\$ -	\$ 40,425
Construction in process	-	353,700	-	353,700
Total non-depreciable assets	<u>40,425</u>	<u>353,700</u>	<u>-</u>	<u>394,125</u>
Depreciable assets:				
Water	2,763,169	7,600	-	2,770,769
Sewer	1,836,113	2,600	-	1,838,713
Gas	4,172,832	9,513	-	4,182,345
Drumright Industrial Authority	1,744,839	-	-	1,744,839
Total depreciable assets	<u>10,603,077</u>	<u>19,713</u>	<u>-</u>	<u>10,536,666</u>
Less accumulated depreciation:				
Water	(1,620,894)	(89,401)	-	(1,710,295)
Sewer	(1,208,543)	(51,936)	-	(1,260,479)
Gas	(1,928,692)	(87,564)	-	(2,016,256)
Drumright Industrial Authority	(371,716)	(34,484)	-	(406,200)
Total accumulated depreciation	<u>(4,671,871)</u>	<u>(263,385)</u>	<u>-</u>	<u>(5,393,230)</u>
Net depreciable assets	<u>5,931,206</u>	<u>(243,672)</u>	<u>-</u>	<u>5,143,436</u>
Net business-type activities capital assets	<u>\$ 5,971,631</u>	<u>\$ 110,028</u>	<u>\$ -</u>	<u>\$ 5,537,561</u>

E. Payables from Restricted Assets

Certain assets of the City of Drumright have been restricted for customers' deposits and payment of revenue bonds and notes.

F. Inter-fund Receivables and Payables

On November 19, 2010 The City entered into an agreement with the Drumright Gas Authority for the purchase of (3) Ford Crown Victoria Vehicles, (1) Ford F-150 pickup, and (4) specialty equipment packages to outfit the vehicles. The City will pay 4 consecutive annual payments due on November 19, 2011, November 19, 2012, November 19, 2013, and November 19, 2014 of \$21,265, for a total of \$85,062, with \$80,000 attributed to principal and \$5,061 recognized as interest. Upon completion of the agreement, the City will pay the Authority \$1 for any remaining financial interest in the vehicles above. The current principal inter-fund receivable/payable is \$40,988 recognized on the government wide statement of net position.

**CITY OF DRUMRIGHT
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

G. Long-term Debt

The City is not obligated in any manner for the debt of its component units. The following is a summary of long-term debt of the City's Business-Type activities.

Drumright Utility Trust:

- | | |
|--|-----------|
| 1) Utility system revenue bonds issued in the original amount of \$3,570,000 to retire existing debt and provide funds for the Drumright hospital. The bonds carry interest rates from 3.7% to 4.75%. The water fund remits monthly payments of \$17,990 to the fiscal agent as required by the provisions of the bond indenture for debt service and reserve payments. The bonds are scheduled to be paid off next year. | 3,185,000 |
| 2) Utility system revenue bonds issued in the original amount of \$2,600,000 to retire existing debt of the Drumright hospital. The bonds carry interest rates of 3.83%. The water fund remits varying quarterly payments as required by the provisions of the bond indenture for debt service. The bonds are scheduled to be paid over a period of 15 years. | 2,600,000 |
| 3) Revenue note issued May 23, 2013, in the original amount of \$4,542,000 to the Rural Economic and Community Development Administration to build a new sewer treatment facility. The note carries an interest rate of 2.75% and is secured by a first real estate mortgage and first lien pledge of revenues and receipts of the Water fund. The note is to be repaid over a period of 40 years with monthly payments of \$15,625. | 335,057 |

Drumright Gas Authority:

- | | |
|---|-----------|
| 4) Revenue note issued February 28, 1996, in the original amount of \$3,448,000 to the Rural Economic and Community Development Administration to repair and replace gas lines throughout the City. The note carries an interest rate of 4.5% and is secured by a first real estate mortgage and first lien pledge of revenues and receipts of the Gas Authority. The note is to be repaid over a period of 40 years with monthly payments of \$15,654. | 2,652,539 |
|---|-----------|

Drumright Industrial Authority:

- | | |
|--|---------|
| 5) CDBG loan from the U.S. Department of Housing and Urban Development in the amount of \$262,680 for construction of a building in the industrial park. The loan is backed by the utility revenue of the Drumright Utility Trust, however, the intent is for the Industrial Authority to collect rent on the building to make the loan payments. The loan has a 0% interest rate and is to be repaid in approximately 180 payments of \$1,459 a month commencing when the building is leased. | 99,234 |
| 6) Note payable to Creek County Industrial Authority in the original amount of \$177,000. The note is a fifteen year zero interest loan with payments of \$984 a month beginning when tenants occupy the Industrial Park Building. | 101,728 |

Total Proprietary Fund long-term debt	\$ 8,973,558
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CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

G. Long-term Debt (Continued)

The annual debt service requirements to maturity, including principal and interest, for long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	3,462,769	406,497	3,869,266
2015	292,751	252,573	545,324
2016	302,929	246,597	549,526
2017	318,312	240,368	558,680
2018	328,908	233,877	562,785
2019-2023	1,774,365	1,062,100	2,836,465
2024-2028	2,132,513	854,127	2,986,640
2029-2033	1,258,787	617,952	1,876,739
2034-2038	1,019,304	381,258	1,400,562
2039-2043	667,434	270,066	937,500
2044-2048	765,693	171,807	937,500
2049-2053	851,520	59,111	910,631
Totals	\$ 13,175,285	\$ 4,796,333	\$ 17,971,618

The changes in Business-Type activities long-term debt are as follows:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Current Portion
Drumright Utility Trust:					
Revenue Bonds	\$ 3,250,000	\$ -	\$ 65,000	\$ 3,185,000	\$ 3,185,000
Revenue Bonds	-	2,600,000	-	2,600,000	115,000
Notes Payable	-	349,865	14,808	335,057	63,535
Drumright Gas Authority:					
Revenue Bonds	2,719,382	-	66,843	2,652,539	69,914
Drumright Industrial Authority:					
CDBG Loan	116,746	-	17,512	99,234	17,512
Creek County Industrial Authority	113,536	-	11,808	101,728	11,808
Total	\$ 6,199,664	\$ 2,949,865	\$ 175,971	\$ 8,973,558	\$ 3,462,769

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

H. Inter-fund Transfers

During the year, transactions between funds create temporary inter-fund receivables and payables. The following schedule reflects the City's transfers from and to other funds:

	<u>Transfer In</u>	<u>Transfer Out</u>
General fund:		
Drumright Utility Trust, Water Fund	112,500	-
Drumright Utility Trust, Sewer Fund	35,000	-
Drumright Gas Authority	110,000	-
Street Improvement Fund	749	-
Drumright Municipal Healthcare Facility	251	-
Broadway Sidewalk Improvement Fund	696	-
Capital Improvement Fund	10,080	-
Drumright Municipal Healthcare Facility:		
General Fund	-	251
Drumright Utility Trust, Water Fund	-	846,344
Street Improvement Fund:		
Drumright Gas Authority	107,000	-
General Fund	-	749
Capital Improvement Fund		
General Fund	-	10,080
Broadway Sidewalk Improvement Fund:		
General Fund	-	696
Drumright Utility Trust, Water Fund:		
Drumright Municipal Healthcare Facility	846,344	-
General Fund	-	112,500
Drumright Utility Trust, Sewer Fund:		
General Fund	-	35,000
Drumright Gas Authority:		
Street Improvement Fund	-	107,000
General Fund	-	110,000
	<u>\$ 1,222,620</u>	<u>\$ 1,222,620</u>

4. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance to cover these and other risks, including general auto liability, property damage, and public officials' liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

4. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for all claims submitted to it during the plan year.

As a member of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. A Loss Fund has been established from the proceeds of these fees for each participant in the Plan. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's liability for claim loss is limited to the balance of that fund.

In addition to the Loss Fund, the City maintains two additional funds with the Plan. The Rate Stabilization Reserve (RSR), which can be applied against future premium increases and an Escrow Fund made up of past refunds left on deposit with the Plan. Escrow funds earn interest and are readily available for use by the governing board. In accordance with GASB No. 10, the City reports the required contribution to the pool, net of refunds, as insurance expense. The balances in the RSR Fund and the Escrow Fund were \$1,967 and \$0, respectively.

B. Contingent Liabilities

The City is a defendant in ongoing litigation and various legal actions arising from normal governmental activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the City. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the City.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

4. OTHER INFORMATION (Continued)

C. North and South Cemetery's

On November 3, 1987, the Drumright Cemetery Association conveyed five acres of land known as the North Cemetery together with a certificate of Deposit in the amount of \$33,500 to the City. According to the agreement, the corpus of the certificate of deposit is to remain intact and the interest earned is to be used for maintenance of the North Cemetery. An additional donation in the amount of \$6,040 was also received which included a similar restriction. During 1996, the South Cemetery Association disbanded and donated the land known as the South Cemetery together with cash in the amount of \$3,699. There were no restrictions placed on the use of the funds. However, it is the City's intention to use only the interest earnings for maintenance and operations of the Cemetery and retain the principal of the contribution intact.

D. Related Organizations

City officials are responsible for appointing members of the Drumright Housing Authority and certain other organizations. These organizations are not accountable to the City nor does the City's responsibility extend beyond the appointments. The City has a beneficial interest in the residue of the Trusts' if terminated. The City incurs no other financial benefit or burden in relation to these Authorities.

E. Employee Retirement Plans

Description of Plan

The City of Drumright, Drumright Utility Trust and Drumright Gas Authority provides pension benefits for substantially all of its full time employees (excluding firemen and police officers which are covered under state retirement systems). The City maintains a defined benefit plan through The Oklahoma Municipal Retirement Fund. The City also maintains a defined contribution plan with the Oklahoma Municipal Retirement Fund. The defined benefit plan through the Oklahoma Municipal Retirement Fund is a defined benefit plan and an agent multiple-employer pension plan. An employee is eligible to participate in the Plan on the employee's employment commencement date, which means the first day of the first pay period during which the employee receives wages as an employee from which federal taxes are withheld. To participate in the plan an employee must have 1,800 hours of service per year. An employee becomes fully vested after ten years or normal retirement. More information about the plan may be obtained by writing to Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, OK 73105, or by contacting the City of Drumright.

Funding Policy

The City is required to contribute at an actuarially determined rate to fund the benefit level as elected by the City. For 2012-2013 the rate was 18.36% of each participant's covered payroll contributed by the City and the employees contributed 6%. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the costs. The employees contributed 2% of pay to the defined contribution plan.

Annual Pension Cost

The City's annual pension cost of \$82,366 was equal to the City's required and actual contributions. The required contribution was determined as part of the latest actuarial valuation. The contributions from the City for the plan were \$87,374, \$87,760 and \$82,366 for 2011, 2012 and 2013 respectively.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

4. OTHER INFORMATION (Continued)

E. Employee Retirement Plans (Continued)

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Asset Valuation Basis</u>	<u>Actuarial Accrued Liability (AAL)*</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>
1/1/2011	\$ 1,824,137	Actuarial	\$ 2,735,483	\$ 911,346	66.7%
1/1/2012	1,948,525	Actuarial	2,826,987	878,462	68.9%
1/1/2013	2,062,484	Actuarial	2,868,765	806,281	71.9%

* Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

Police and Fire Department

Full-Time Police and Firemen:

All full-time police and firemen hired before age 45 are covered by statewide cost-sharing multi-employer defined benefit plans adopted under Oklahoma Statutes. These plans are operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS) and the Oklahoma Police Pension and Retirement System (OPPRS). Under these plans, fire department personnel and police department personnel contribute 8% of base salary and the City contributes an additional 13%. The OFPRS and OPPRS issue publicly available financial reports that include financial statements and required supplementary information for the funds. Those reports may be obtained by writing to Oklahoma Firefighters Pension and Retirement Systems, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, 1-800-525-7461 or the Oklahoma Police Pension and Retirement System, 1001 NW 63rd Street, Suite 305, Oklahoma City, OK 73116-7335 1-800-347-6552.

Volunteer Firemen:

The City is required to make annual contributions of \$60 per active volunteer fireman to OFPRS. This contribution covers a portion of the cost of benefits that will be paid to vested volunteer firemen. Additional funding comes from a percentage on all taxes collected on premiums collected by insurance companies and an appropriation by the State of Oklahoma.

Funding Policy

The City's contributions to OFPRS for volunteer firemen were \$1,140, \$1,140, and \$1,440 for 2011, 2012 and 2013 respectively. The City's portions of contributions to OFPRS for full time firemen were \$26,930, \$22,279 and \$19,844 for 2011, 2012, and 2013 respectively. The City's portions of contributions to OPPRS for full time policemen were \$26,072 and \$26,789 for 2012 and 2013 respectively.

CITY OF DRUMRIGHT
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

4. OTHER INFORMATION (Continued)

F. Other Post-Employment Benefits

Plan Description: City provides post-retirement benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs.

Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. The plan is only provided for employees between the ages of 62 and 65. As of June 30, 2013, no retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2013, the City contributed 0% to the plan for previously retired employees (0 retirees) and 0% of premiums on newly retired employees (0 retirees).

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City is not required to perform the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2013 since no one is participating at this time.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**CITY OF DRUMRIGHT
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013**

4. OTHER INFORMATION (Continued)

G. Deferred Inflows (Outflows) of Revenue

Bond discount costs and bond issue costs and other items previously reported as assets and liabilities are now recognized as deferred inflows or outflows of resources in the period of the refunding as prescribed by the Governmental Accounting Standards Board (GASB) statement 65. Prior to the adoption of GASB 65, all bond issue costs and refunding expenses were capitalized and amortized on a straight-line basis over the life of the bond. Currently, implementation guidance requires that all prior bond issue costs and refunding expenses be expensed in the current period. The net effect of the adoption of GASB 65 is an additional \$422,712 in legal and accounting expenditures reflected on the Statement of Revenues, Expenditures, and Changes in Net Position of the Drumright Utility Trust Fund.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 4, 2013, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

CITY OF DRUMRIGHT
Drumright, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2013

CITY OF DRUMRIGHT
REQUIRED SUPPLEMENTAL INFORMATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013(Unaudited)

GENERAL FUND

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
Revenues:				
Charges for services	\$ 405,300	\$ 405,300	\$ 405,399	\$ 99
Licenses and permits	4,500	4,500	7,591	3,091
Intergovernmental programs	25,281	25,281	35,043	9,762
Taxes & fees	680,568	680,568	687,132	6,564
Fines and forfeitures	95,000	95,000	108,376	13,376
Interest	7,500	7,500	2,957	(4,543)
Grants	-	3,932	64,548	60,616
Miscellaneous	23,600	23,600	32,097	8,497
Total revenues	<u>1,241,749</u>	<u>1,245,681</u>	<u>1,343,143</u>	<u>97,462</u>
Expenditures:				
Current:				
General government	377,155	377,155	384,931	7,776
Public safety	751,452	755,384	743,976	(11,408)
Highways, roads	22,876	22,876	3,020	(19,856)
Cultural & recreational	76,735	76,735	76,309	(426)
Health & welfare	271,500	271,500	270,433	(1,067)
Capital outlay	-	-	-	-
Total expenditures	<u>1,499,718</u>	<u>1,503,650</u>	<u>1,478,669</u>	<u>(24,981)</u>
Excess of revenue over				
(under) expenditures	<u>(257,969)</u>	<u>(257,969)</u>	<u>(135,526)</u>	<u>122,443</u>
Other financing sources (uses):				
Operating transfers in (out)	<u>257,500</u>	<u>257,500</u>	<u>267,785</u>	<u>10,285</u>
Net changes in fund balance	<u>(469)</u>	<u>(469)</u>	<u>132,259</u>	<u>132,728</u>
Fund balance at beginning of year	<u>397,355</u>	<u>397,355</u>	<u>397,355</u>	<u>-</u>
Fund balance at end of year	<u>\$ 396,886</u>	<u>\$ 396,886</u>	<u>\$ 529,614</u>	<u>\$ 132,728</u>

The Notes to Required Supplemental Information are an integral part of this statement.

CITY OF DRUMRIGHT
REQUIRED SUPPLEMENTAL INFORMATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013(Unaudited)

STREET IMPROVEMENT FUND

	<u>Budgeted Amounts</u>			<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
	<u>Budget</u>	<u>Budget</u>		<u>Over (Under)</u>
Revenues:				
Sales and use taxes	\$ 168,814	\$ 168,814	\$ 161,869	\$ (6,945)
Intergovernmental programs	26,000	26,000	26,024	24
Misc	-	-	898	
Grants	-	-	-	-
Total revenues	<u>194,814</u>	<u>194,814</u>	<u>188,791</u>	<u>(6,921)</u>
Expenditures:				
Current:				
Public safety	-	-	-	-
Highways & roads	397,047	397,047	334,649	(62,398)
Cultural, parks & recreation	-	-	-	-
Capital outlay	-	-	-	-
Lease payments	-	-	-	-
Total expenditures	<u>397,047</u>	<u>397,047</u>	<u>334,649</u>	<u>(62,398)</u>
Excess of revenue over				
(under) expenditures	(202,233)	(202,233)	(145,858)	56,375
Other financing sources (uses):				
Operating transfers in (out)	<u>-</u>	<u>107,000</u>	<u>107,749</u>	<u>749</u>
Net changes in fund balance	(202,233)	(95,233)	(38,109)	57,124
Fund balance at beginning of year	<u>212,851</u>	<u>212,851</u>	<u>212,851</u>	<u>-</u>
Fund balance at end of year	<u>\$ 10,618</u>	<u>\$ 117,618</u>	<u>\$ 174,742</u>	<u>\$ 57,124</u>

The Notes to Required Supplemental Information are an integral part of this statement.

CITY OF DRUMRIGHT
REQUIRED SUPPLEMENTAL INFORMATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013(Unaudited)
CAPITAL IMPROVEMENT FUND

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
	Budget	Budget		Over (Under)
Revenues:				
Sales and use taxes	\$ 172,408	\$ 169,300	\$ 107,798	\$ (61,502)
Intergovernmental programs	350,000	-	-	-
Cemetery Lot sales	-	-	-	-
Loan proceeds	-	-	-	-
Misc	-	-	79,256	79,256
Grants	-	-	-	-
Total revenues	<u>522,408</u>	<u>169,300</u>	<u>187,054</u>	<u>17,754</u>
Expenditures:				
Current:				
Public safety	21,636	21,636	21,265	(371)
Highways & roads	-	-	-	-
Cultural, parks & recreation	4,517	-	-	-
Capital outlay	350,000	-	-	-
Lease payments	-	-	-	-
Total expenditures	<u>376,153</u>	<u>21,636</u>	<u>-</u>	<u>(371)</u>
Excess of revenue over				
(under) expenditures	146,255	147,664	187,054	39,390
Other financing sources (uses):				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>(10,080)</u>	<u>(10,080)</u>
Net changes in fund balance	146,255	147,664	176,974	29,310
Fund balance at beginning of year	<u>146,523</u>	<u>146,523</u>	<u>146,523</u>	<u>-</u>
Fund balance at end of year	<u>\$ 292,778</u>	<u>\$ 294,187</u>	<u>\$ 323,497</u>	<u>\$ 29,310</u>

The Notes to Required Supplemental Information are an integral part of this statement.

**CITY OF DRUMRIGHT
Drumright, Oklahoma**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the Year Ended June 30, 2013
(Unaudited)**

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Manager (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

CITY OF DRUMRIGHT
Drumright, Oklahoma

OTHER INFORMATION
June 30, 2013

CITY OF DRUMRIGHT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2013

	Special Revenue				Permanent Funds	Total Non-Major Governmental Funds
	Capital Improvement Fund	Cemetery Care Fund	Broadway Sidewalk II Fund	Library Improvement Fund	Cemetery Trust Fund	
Assets:						
Cash and equivalents	\$ 206,591	\$ 2,523	\$ -	\$ -	\$ -	\$ 209,114
Investments at cost	80,000	6,960	-	-	-	86,960
Taxes receivable	15,641	-	-	-	-	15,641
Due from others	-	-	-	4,916	-	4,916
Restricted assets:						
Investments at cost	-	-	-	-	39,540	39,540
Total assets	<u>\$ 302,232</u>	<u>\$ 9,483</u>	<u>\$ -</u>	<u>\$ 4,916</u>	<u>\$ 39,540</u>	<u>\$ 356,171</u>
Liabilities:						
Cash overdraft	\$ -	\$ -	\$ -	\$ 1,150	\$ -	\$ 1,150
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,150</u>	<u>-</u>	<u>1,150</u>
Fund balances:						
Restricted	302,232	9,483	-	3,766	39,540	355,021
Unrestricted	-	-	-	-	-	-
Total fund balances	<u>302,232</u>	<u>9,483</u>	<u>-</u>	<u>3,766</u>	<u>39,540</u>	<u>355,021</u>
Total liabilities and fund balances	<u>\$ 302,232</u>	<u>\$ 9,483</u>	<u>\$ -</u>	<u>\$ 4,916</u>	<u>\$ 39,540</u>	<u>\$ 356,171</u>

CITY OF DRUMRIGHT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2013

	<u>Special Revenue</u>				<u>Permanent Funds</u>	
	<u>Capital Improvement Fund</u>	<u>Cemetery Care Fund</u>	<u>Broadway Sidewalk II Fund</u>	<u>Library Improvement Fund</u>	<u>Cemetery Trust Fund</u>	<u>Total Non-Major Governmental Funds</u>
Revenues:						
Sales and use taxes	\$ 107,798	\$ -	\$ -	\$ -	\$ -	\$ 107,798
Lot sales	-	500	-	-	-	500
Miscellaneous	79,256	-	-	-	-	79,256
Total revenues	<u>\$ 187,054</u>	<u>500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,553</u>
Expenditures:						
Public safety	\$ 21,265	-	-	-	-	21,265
Cultural, parks & recreation	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>21,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,265</u>
Excess of revenues over (under) expenditures	165,789	500	-	-	-	166,288
Other financing uses:						
Operating transfers in (out)	(10,080)	-	(696)	-	-	(10,776)
Excess of revenues over (under) expenditures & transfers	155,709	500	(696)	-	-	155,512
Fund balance - beginning of year	<u>146,523</u>	<u>8,983</u>	<u>696</u>	<u>3,766</u>	<u>39,540</u>	<u>199,508</u>
Fund balance - end of year	<u>\$ 302,232</u>	<u>\$ 9,483</u>	<u>\$ -</u>	<u>\$ 3,766</u>	<u>\$ 39,540</u>	<u>\$ 355,020</u>

CITY OF DRUMRIGHT
Drumright, Oklahoma

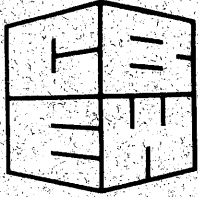
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ending June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expend- itures</u>
<u>U.S. Department of Homeland Security:</u>				
<u>Passed through the Oklahoma Department of Emergency Management:</u>				
FEMA PW500 and 5003	97.036	<u>50,077</u>	<u>50,077</u>	<u>50,077</u>
<u>U.S. Department of Agriculture:</u>				
Waste and Water Disposal System Loans for Rural Communities	10.76	<u>349,865</u>	<u>349,865</u>	<u>349,865</u>
<u>Office of Library Services, Institute of Museum and Library Services, National Foundation on the Arts and the Humanities:</u>				
<u>Passed through the Oklahoma Department of Libraries:</u>				
State Library Program	45.310	<u>5,170</u>	<u>5,170</u>	<u>5,170</u>
Total of Expenditures of Federal Awards		\$ <u>405,112</u>	\$ <u>405,112</u>	\$ <u>405,112</u>

Note A - This schedule was prepared on an accrual (GAAP) basis of accounting consistent with the preparation of the basic financial statements.

CITY OF DRUMRIGHT
Drumright, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2013



CBEW
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 4, 2013

Honorable Board of City Commissioners
City of Drumright
Drumright, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Drumright, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Drumright, Oklahoma's basic financial statements, and have issued our report thereon dated September 4, 2013. The City did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies as findings 13-1 & 13-2.

Compliance and Other Matters

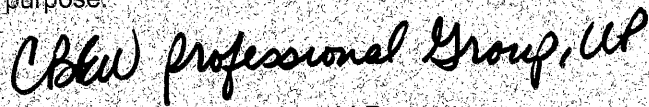
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CBEW Professional Group, LLP
Certified Public Accountants

CITY OF DRUMRIGHT
Drumright, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2013

13-1. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the city's assets and ensure accurate financial reporting.

Condition: Presently the same individual is responsible for issuing purchase orders, writing checks, making deposits, posting transactions and reconciles the monthly bank statements. This finding was also noted in 2012.

Cause: The City's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to purchasing and depositing activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management should consider a formal evaluation of their risks associated with these procedures. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response: The City concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the City has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.

13-2. Internal Control – Material Adjusting Journal Entries

Criteria: The City's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the City's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the City's accounting records. For trial balances to be both complete and accurate, the City must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, City management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The City's trial balances for the year ended June 30, 2013, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: depreciation expense, balancing and recording note payables, interest expenses, purchased assets, and accrued revenue and expense transactions. This finding was also noted in 2012.

CITY OF DRUMRIGHT
Drumright, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2013

13-2. Internal Control – Material Adjusting Journal Entries (continued)

Cause: Although the City's accounting and financial reporting staff possess the necessary skills and experience to review and understand the financial statement presentation they don't spend sufficient time in balancing and/or reconciling specific accounts at year end to provide assurance that the trial balances used for preparing GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, management was able to review, understand and accept the adjusting entries proposed by the auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the City lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as required by the GAO "Yellow Book."

Recommendation: The City should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by assigning responsibility to regularly review, balance and reconcile interim financial statements (particularly at year end) in sufficient depth to insure that material adjusting journal entries are made timely. This process could be assigned to a specific staff person, through employment of additional qualified accounting staff, or outsources to a qualified external accounting firm. Additionally accounting staff should strive to obtain and/or maintain their proficiency through continuing education courses relative to governmental accounting.

Responsible Official's Response: The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements. We have seen significant progress in the City's effort to reduce the number of material adjusting entries needed by the auditor.